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C O N F I D E N T I A L SECTION 01 OF 04 HONG KONG 004159

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DEPT FOR EAP AND EAP/CM  
NSC FOR WILDER

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TAGS: [ECON](#) [EFIN](#) [EWWT](#) [HK](#) [KN](#) [MC](#) [OVIP](#) [PARM](#) [PREL](#) [PTER](#)  
SUBJECT: SCENESETTER FOR ASSISTANT SECRETARY HILL'S VISIT  
TO HONG KONG OCTOBER 21-23

Classified By: Consul General James Cunningham. Reasons: 1.4 (b,d)

11. (SBU) Summary: The U.S. Consulate General Hong Kong looks forward to your visit this week. The fourteen USG agencies with representatives here address and protect key U.S. interests, including expansion of democracy and protection for human rights; enhancement of transportation security, particularly through improvements to the existing container security screening programs; maintenance of effective counter-proliferation and export control regimes, autonomous from the PRC; and, continued vigilance against money laundering and other illicit financial activities in both Hong Kong and Macau. To advance these interests, we work closely with the Government, various political entities, and the media to support the growth of democracy and the respect for Hong Kong's autonomy, both of which are stipulated in the Basic Law and which the central government in Beijing has pledged to maintain. End Summary.

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ADVANCING DEMOCRACY  
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12. (SBU) Hong Kong is a society in transition, under the "one country, two systems" commitment contained in its Basic Law. The people of Hong Kong enjoy a broad range of civil and social freedoms, strong legal institutions, the free flow of information, and a highly professional civil service. They lack, however, full democracy and a common view of their political future, and development of greater democracy and movement toward the goal of universal suffrage, promised in the Basic Law, are proving to be difficult. Hong Kong's achievements and its future development form the foundation for its "high degree of autonomy" within China, and help set an example for this region coping with China's emerging economic power and influence.

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PROLIFERATION AND EXPORT CONTROLS  
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13. (SBU) In an October 18 meeting, the Consul General told Secretary of Commerce Joseph Wong that UNSCR 1718 applies to

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North Korean shipping through Hong Kong's ports and we expect Hong Kong to fully implement the provisions of 1718 in its port and border operations. Hong Kong is a cooperative partner in preventing the transfer of goods through its ports

that could be used by the DPRK in its missile and WMD programs. Hong Kong authorities emphasize that their Anti-Terrorism, Weapons of Mass Destruction, Narcotics and Serious Crime ordinances provide the necessary legal powers to act and convict persons engaging in illicit activities involving the DPRK. Hong Kong maintains an effective, highly autonomous, and transparent export control regime. In September, the Bureau of Industry and Security (BIS) Assistant Secretary Darryl Jackson congratulated the Hong Kong government for obtaining a conviction of a Hong Kong company for violations of Hong Kong's Strategic Goods Law in a case for which BIS provided Hong Kong key information. Hong Kong continues to be an important partner in protecting the smooth functioning of the global trading system. Its contributions reflect understanding of its role as a premier transportation center.

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MONEY LAUNDERING  
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14. (C) The Treasury Department's 2005 designation of Macau's Banco Delta Asia (BDA) as an institution "of primary money laundering concern" under Section 311 of the Patriot Act reverberated throughout the region. Macau authorities, cognizant of the attention the BDA designation had generated worldwide and the possible negative effects on investment and tourism revenues, immediately assumed control of BDA. In March 2006, Macau's legislature passed Anti-Money Laundering and Counter-Terrorism bills and in September announced the formation of a Financial Investigation Unit. Macau authorities are cooperating with U.S. Treasury/IRS Officials in the ongoing investigation of BDA. In September, investigators completed the task of scanning and digitizing 220,000 BDA documents and are examining the data. In early

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September, Chief Executive Edmund Ho told the CG that Macau is willing to extend its control over BDA for another six months, but both Ho and the PRC's Ministry of Foreign Affairs Commissioner in Macau Wan Yongxiang told the CG that they hoped the BDA case would be resolved quickly. Asia's financial world will be watching carefully how our government resolves this case.

15. (C) Hong Kong's Monetary Authority (HKMA) appointed a manager to oversee BDA's Hong Kong subsidiary, Delta Asia Credit (DAC). The ultimate disposition of DAC will depend on how Macau decides to treat BDA. As the second largest financial market in Asia, after Japan, Hong Kong's cooperation in preventing financial transactions related to the DPRK's WMD and missile programs is crucial. HKMA has implemented a rigorous AML/CTF regime in line with international standards. HKMA has alerted Hong Kong banks to exercise vigilance regarding North Korean financial transactions and HKMA officials have conducted reviews of North Korean transactions moving through Hong Kong banks. In September, as we briefed them on UNSCR 1695, Hong Kong Monetary and Police authorities expressed their willingness to continue to support these efforts. They urged the U.S. Government to provide specific, detailed, evidentiary information so that they can more effectively monitor, investigate, stop and prosecute illicit activities related to North Korea's missile and WMD programs. More general information on patterns and trends would also be very useful, said the Hong Kong officials.

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SECURE TRADE  
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16. (SBU) As the largest source of U.S.-bound containers, Hong Kong was among the first in Asia to participate in the Container Security Initiative (CSI). Cooperation between Hong Kong Customs and Department of Homeland Security/Customs and Border Protection on CSI is exemplary and paved the way

for CSI programs in Shanghai and Shenzhen. Two port operators, Hong Kong International Terminal and Modern Terminal, have each established a pilot of the Integrated Container Inspection System (ICIS), which combines radiological mapping, x-ray images and container tagging and makes a digital record for each container passing through its portals. Hong Kong's port operators, along with the Government (HKG), are considering whether to purchase this integrated port security system, but are waiting for U.S. government guidance as to whether the ICIS system meets U.S. requirements. The Port Security Improvement Act of 2006 signed into law by the President on October 13 directs the Department of Homeland Security to designate three foreign ports for the establishment of pilot integrated scanning systems that couple non-intrusive imaging and radiological detection equipment. In this regard, Hong Kong appears to be a world leader and we should encourage them to continue their efforts as they move toward the shared goal of strengthening port/container security.

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Itinerary  
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17. (SBU) We have arranged meetings for you with leading politicians and prominent members of Hong Kong society and activities which will give you a good overview of Hong Kong economy and people on October 21 and 22.

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Politics  
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18. (C) Chief Executive (CE) Donald Tsang formally took office on June 21, 2005, following an interim election to fill the remaining two years of the term of former Chief Executive Tung Chee Hwa. Tung resigned in March 2005 due to widespread dissatisfaction over his management and political style. During his first eighteen months in office, Tsang enjoyed high public approval ratings, reflecting confidence in Tsang's administrative competence, his deliberate outreach

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efforts and Hong Kong's robust economy. Nevertheless, his reluctance to put forth a "vision" stretching beyond the five

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months till his expected selection for a second term has engendered public and media criticism.

19. (C) Your visit comes as Tsang prepares for what should be an easy reelection campaign. Under Hong Kong's partially democratic electoral system, in December various constituencies will select the 800 members of the Chief Executive Election Committee, which in turn will select the next Chief Executive in March 2007. Barring any severe political, economic, or social crisis, Tsang -- who enjoys strong support from the central government in Beijing -- will win reelection by a wide margin, and possibly will run unopposed. Many in the pan-democratic opposition parties had hoped that former Chief Secretary Anson Chan, a retired, highly respected career civil servant, would contest the election on their behalf, but she has declined to do so. Now, it appears that Alan Leong, a member of the newly formed pro-democracy group, the Civic Party, will attempt to gain at least one hundred nominations from the Election Committee, which would force Donald Tsang to face an opponent and presumably to debate the future of democratic reform and other issues; both Tsang and Beijing would prefer to avoid such debate. Further progress toward universal suffrage, required by Hong Kong's Basic Law, has been deferred until at least 2012.

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Economics  
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¶10. (U) Hong Kong is a valuable United States partner on trade liberalization and other economic issues. Hong Kong's transparent regulatory regimes, modern financial systems, rule of law, open society, and long experience with capitalism serve as a model for mainland China's own development. Hong Kong is a global nexus for the movement of people, goods and money. Like the United States, Hong Kong is confronting the challenges of continuing to be an efficient transportation and financial center, while at the same time controlling the spread of WMD, drugs and diseases such as Avian Flu.

¶11. (U) Hong Kong suffered a series of economic shocks after the 1997 handover, including the Asian Financial Crisis, the migration of its manufacturing sector to mainland China, and the SARS outbreak. These economic crises dented public confidence in the first post-handover government headed by Tung Chee Hwa. The economy rebounded in 2003 amidst strong growth in China, increased tourism, and a healthy global economy. The Hong Kong government is deepening its economic interaction with the Pearl River Delta (PRD) in Southern China to maintain its position as a gateway to China. Services industries make up 90 percent of Hong Kong's GDP (US\$ 180 billion in 2005) with a focus on financial and professional services, transportation and logistics and tourism. Hong Kong faces sharpening competition from mainland rivals in services industries; however, its strong rule of law, modern practices and transparent society suggest that it will remain a key finance and services hub.

¶12. (U) Hong Kong consistently advocates for open global trade. In the U.S. - Hong Kong trade arena, textiles, civil aviation and IPR continue to be key issues. We have negotiated an MOU with Hong Kong to combat illegal transshipments of Chinese textiles. We urge Hong Kong to further liberalize its civil aviation market, which Cathay Pacific continues to dominate. Hong Kong has dramatically improved its enforcement of IPR, but there are ongoing concerns about pending changes to the Copyright Law, end-user software piracy, and pharmaceutical-related infringements.

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Environment  
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¶13. (U) Hong Kong's air quality has deteriorated dramatically over the past ten years due to pollution that can be traced to the tremendous growth of factories across the border in the Peal River Delta of mainland China. There is growing concern among Hong Kong residents that pollution is having an increasingly negative impact on health, quality of life and the economy.

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Avian Influenza  
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¶14. (SBU) Hong Kong has experienced two human outbreaks of the highly pathogenic H5N1 subtype of the AI virus. The city's earliest case of bird-to-human transmission was in 1997 when eighteen people were infected with H5N1; six died. In the 2003 outbreak, two Hong Kong citizens died while traveling in Southern China. Between 1997 and 2005, Hong Kong slaughtered over 4 million birds to prevent spread of AI. Although there have been no recent human cases in Hong Kong, since January the virus has resurfaced in a number of native wild birds and in two chickens, which may have come from mainland China. Health experts believe that H5N1 is present in Hong Kong's natural environment.

¶15. (SBU) Hong Kong has some of the world's leading AI researchers, extensive experience in dealing with SARS, and a well-organized AI response plan. The Centre for Health

Protection (CHP) leads the HKG's AI preparations. After SARS, the HKG formed the CHP to deal with infectious disease threats. The HKG plans to acquire 20 million doses of Tamiflu by 2007 and is talking to manufacturers about purchasing a H5N1 vaccine when it is produced. Working with the private sector and community groups, the HKG continually updates its AI response plan.

Cunningham